

MORNING SUN COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS,
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND SCHEDULE OF FINDINGS

JUNE 30, 2010

MORNING SUN COMMUNITY SCHOOL DISTRICT
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MORNING SUN COMMUNITY SCHOOL DISTRICT

Officials

June 30, 2010

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2009 Election)		
Will Buster	Board President	2009
Jim Harbison	Board Member	2009
Robert Fletcher	Board Member	2009
Jason Hagge	Board Member	2011
Jon Malone	Board Member	2011
(After September 2009 Election)		
Jon Malone	Board President	2011
Will Buster	Board Member	resigned July, 2009 2009
Bryan Townsley	Board Member	appointed July, 2009 2009
Jason Hagge	Board Member	2011
Jon Malone	Board Member	2011
Jamie Holmes	Board Member	2013
Jim Harbison	Board Member	2013
Robert Fletcher	Board Member	2013
School Officials		
Doug Graber	Superintendent	2010
Kim Booth	District Secretary	2010
Sue Bryant	District Treasurer	2010
Gruhn Law Firm	Attorney	Indefinite

KAY L. CHAPMAN, CPA PC

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Muscatine, Iowa 52761
563-264-1385

Independent Auditor's Report

To the Board of Education
Morning Sun Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Morning Sun Community School District, Morning Sun, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Morning Sun Community School District as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated January 12, 2011 on my consideration of Morning Sun Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 13 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morning Sun Community School District's basic financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. In my opinion, the information set forth in the supplementary information for each of the seven years in the period ended June 30, 2010, appearing in Schedule 6, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

A handwritten signature in black ink that reads "Kay L. Chapman, CPA PC". The signature is written in a cursive, flowing style.

Kay L. Chapman, CPA PC
January 12, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Morning Sun Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 Financial Highlights

- General Fund revenues decreased from \$2,639,823 in fiscal 2009 to \$2,200,395 in fiscal 2010 and General Fund expenditures decreased from \$2,730,050 in fiscal 2009 to \$2,393,444 in fiscal 2010. Along with net other financing sources and uses of \$(41,729), this resulted in a decrease in the District's General Fund balance from \$183,718 in fiscal 2009 to \$(51,060) in fiscal 2010, a 128% decrease from the prior year.
- The decrease in General Fund revenues was attributable to increased tuition received in fiscal year 2010. The increase in expenditures was due primarily to an increase in tuition paid.

Using this Annual Report

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Morning Sun Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Morning Sun Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the non-major governmental and enterprise funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

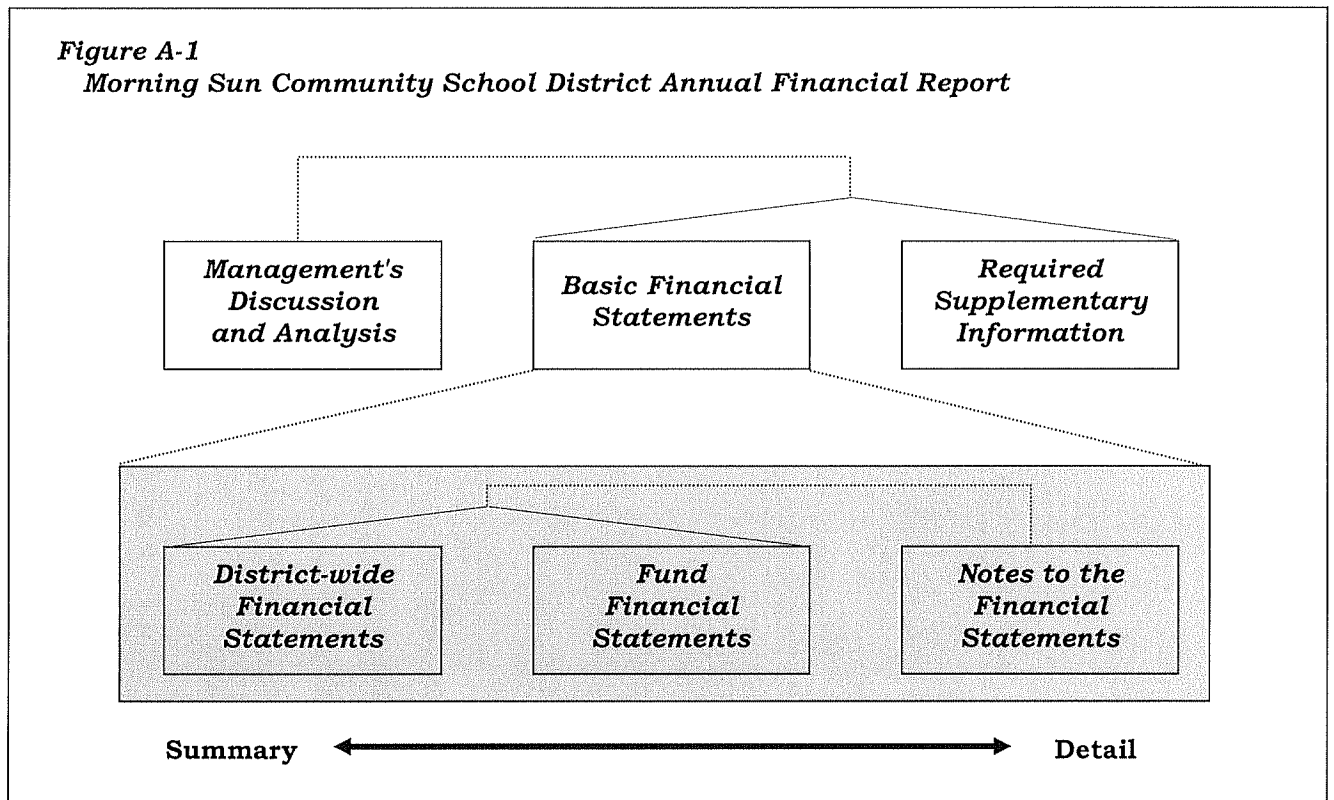


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide	Fund Statements	
	Statements	Governmental Funds	Proprietary Funds
Scope	Entire District	The activities of the District that are not proprietary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and preschool/daycare program
Required financial statements	• Statement of net assets	• Balance sheet	• Statement of net assets
	• Statement of activities	• Statement of revenues, expenditures and changes in fund balances	• Statement of revenues, expenses and changes in fund net assets
			• Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

Reporting the District's Financial Activities

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and preschool/daycare programs are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and Preschool/Daycare Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

Government-Wide Financial Analysis

Figure A-3 below provides a summary of the District's net assets at June 30, 2010 compared to June 30, 2009.

Figure A-3

Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2009-2010</u>
Current and other assets	\$ 1,326,534	\$ 2,315,808	\$ 1,401	\$ 4,367	\$ 1,327,935	\$ 2,320,175	-42.77%
Capital assets	<u>785,434</u>	<u>648,409</u>	<u>138</u>	<u>224</u>	<u>785,572</u>	<u>648,633</u>	21.11%
Total assets	<u>2,111,968</u>	<u>2,964,217</u>	<u>1,539</u>	<u>4,591</u>	<u>2,113,507</u>	<u>2,968,808</u>	-28.81%
Long-term liabilities	34,500	17,100	-	-	34,500	17,100	101.75%
Other liabilities	<u>762,016</u>	<u>1,406,100</u>	<u>41,516</u>	<u>24,750</u>	<u>803,532</u>	<u>1,430,850</u>	-43.84%
Total liabilities	<u>796,516</u>	<u>1,423,200</u>	<u>41,516</u>	<u>24,750</u>	<u>838,032</u>	<u>1,447,950</u>	-42.12%
Net assets							
Invested in capital assets	785,434	648,409	138	224	785,572	648,633	21.11%
Restricted	513,834	626,374	-	-	513,834	626,374	-17.97%
Unrestricted	<u>16,184</u>	<u>266,234</u>	<u>(40,115)</u>	<u>(20,383)</u>	<u>(23,931)</u>	<u>245,851</u>	-109.73%
Total net assets	<u>\$ 1,315,452</u>	<u>\$ 1,541,017</u>	<u>\$ (39,977)</u>	<u>\$ (20,159)</u>	<u>\$ 1,275,475</u>	<u>\$ 1,520,858</u>	-16.13%

The District's combined net assets decreased by 16%, or \$245,383, from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment).

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased by \$112,540, or approximately 18% from the prior year. The decrease was primarily a result of increased expenses and a reduction of revenues.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased by \$269,782 or approximately 110%. This decrease in unrestricted net assets was a result of the District receiving less revenue than expenditures for the fiscal year in the General Fund due to the ATB cuts.

Figure A-4 shows the change in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-4

	Change in Net Assets						
	Governmental Activities		Business Type Activities		Total District		Total Change
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2009-2010</u>
Revenues							
Program revenues							
Charges for service and sales	\$ 229,970	\$ 714,884	\$ 58,580	\$ 56,462	\$ 288,550	\$ 771,346	-62.59%
Operating grants	492,574	349,364	29,400	35,617	521,974	384,981	35.58%
General revenues							
Property tax	730,848	660,432	-	-	730,848	660,432	10.66%
Statewide sales, services and use tax	131,012	134,827	-	-	131,012	134,827	-2.83%
Unrestricted state grants	746,516	1,017,775	-	-	746,516	1,017,775	-26.65%
Contributions and donations	2,584	9,231	-	-	2,584	9,231	-72.01%
Unrestricted investment earnings	10,118	29,452	392	356	10,510	29,808	-64.74%
Other	<u>11,714</u>	<u>23,400</u>	<u>-</u>	<u>-</u>	<u>11,714</u>	<u>23,400</u>	-49.94%
Total revenues	<u>2,355,336</u>	<u>2,939,365</u>	<u>88,372</u>	<u>92,435</u>	<u>2,443,708</u>	<u>3,031,800</u>	-19.40%
Program expenses							
Governmental activities							
Instruction	1,819,939	1,914,778	-	-	1,819,939	1,914,778	-4.95%
Support services	567,785	795,077	-	-	567,785	795,077	-28.59%
Non-instructional programs	1,066	1,066	161,256	163,302	162,322	164,368	-1.24%
Other expenses	<u>150,382</u>	<u>113,245</u>	<u>-</u>	<u>-</u>	<u>150,382</u>	<u>113,245</u>	32.79%
Total expenses	<u>2,539,172</u>	<u>2,824,166</u>	<u>161,256</u>	<u>163,302</u>	<u>2,700,428</u>	<u>2,987,468</u>	-9.61%
Excess (deficiency) before transfers and special items	(183,836)	115,199	(72,884)	(70,867)	(256,720)	44,332	-679.09%
Special item							
Gain on disposal of capital assets	11,337	-	-	-	11,337	-	100.00%
Transfers	<u>(53,066)</u>	<u>(58,290)</u>	<u>53,066</u>	<u>58,290</u>	<u>-</u>	<u>-</u>	0.00%
Change in net assets	(225,565)	56,909	(19,818)	(12,577)	(245,383)	44,332	-653.51%
Net assets, beginning of year	<u>1,541,017</u>	<u>1,484,108</u>	<u>(20,159)</u>	<u>(7,582)</u>	<u>1,520,858</u>	<u>1,476,526</u>	3.00%
Net assets, end of year	<u>\$ 1,315,452</u>	<u>\$ 1,541,017</u>	<u>\$ (39,977)</u>	<u>\$ (20,159)</u>	<u>\$ 1,275,475</u>	<u>\$ 1,520,858</u>	-16.13%

In fiscal 2010, property tax and unrestricted state grants account for approximately 63% of the revenue from governmental activities while charges for service and operating grants and contributions account for almost 100% of the revenue from business type activities.

The District's total revenues were \$2,443,708 of which \$2,355,336 was for governmental activities and \$88,372 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 19% decrease in revenues and a 9% decrease in expenses. Operating grants increased \$136,993 to fund

increases in expenditures. The increases in expenses related to increases in the negotiated salary and benefits.

Governmental Activities

Revenues for governmental activities were \$2,355,336 and expenses were \$2,539,172 for the year ended June 30, 2010. In a difficult budget year, the District was able to balance the budget by cutting most expenses.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-2010	2010	2009	Change 2009-2010
Instruction	\$ 1,819,939	\$ 1,914,778	-5.0%	\$ 1,204,923	\$ 939,972	28.2%
Support services	567,785	795,077	-28.6%	547,816	787,877	-30.5%
Non-instructional programs	1,066	1,066	0.0%	1,066	1,066	0.0%
Other expenses	<u>150,382</u>	<u>113,245</u>	32.8%	<u>62,823</u>	<u>31,003</u>	102.6%
Total expenses	<u>\$ 2,539,172</u>	<u>\$ 2,824,166</u>	-10.1%	<u>\$ 1,816,628</u>	<u>\$ 1,759,918</u>	3.2%

For the year ended June 30, 2010:

- The cost financed by users of the District's programs was \$229,970.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$492,574.
- The net cost of governmental activities was financed with \$861,860 in property tax and other taxes and \$746,516 in unrestricted state grants.

Business Type Activities

Revenues of the District's business type activities during the year ended June 30, 2010 were \$88,372 representing a 4% decrease from the prior year and expenses were \$161,256, a 12% decrease from the prior year. The District's business type activities include the School Nutrition Fund and Daycare/Preschool Program. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During 2010 the District had fewer pre-kindergarten students included in the certified enrollment count than in 2009; therefore, the District received less state aid funding for students included in the preschool program.

Individual Fund Analysis

As previously noted, the Morning Sun Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$497,274, significantly below last year's ending fund balances of \$827,192. This is due to less revenues for the year and increased expenditures.

Governmental Fund Highlights

- The District's decline in General Fund financial position is the product of many factors, one being the ATB cuts. The District was very conservative with expenditures knowing that revenues would be down in FY10.
- The General Fund balance decreased from \$183,718 to \$(51,060) due in part to revenues decreasing more than the decrease in expenditures due to ATB cuts.
- The Management Levy Fund balance increased from \$299,370 in 2009 to \$236,331 in 2010 due to tax revenue being more than the amounts expended during the year.
- The Capital Projects Fund balance decreased from \$336,813 in 2009 to \$288,494 in 2010 due to the collection of local option sales and service tax revenues exceeding the amount spent on building projects during the year.

Proprietary Fund Highlights

The Proprietary Funds net assets decreased from \$(20,159) at June 30, 2009 to \$(39,977) at June 30, 2010, representing a decrease of approximately 98%. Revenues decreased significantly due to smaller numbers on certified enrollment and a transfer from the General Fund while expenditures increased due to salaries and benefits and food costs during the year ended June 30, 2010.

Budgetary Highlights

During the year ended June 30, 2010, the Morning Sun Community School District did not amend its annual budget.

The District's revenues were \$757,655 less than budgeted revenues, a variance of 24%. The most significant variance resulted from the District receiving less in state aid than originally anticipated due to the ATB cuts.

Total expenditures were \$3,291,629 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. The District also budgeted for a wind turbine construction that was not passed.

Capital Asset Administration

Capital Assets

At June 30, 2010, the District had invested \$785,572 net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of approximately 21% from last year. More detailed

information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$43,560.

The original cost of the District's capital assets was \$1,864,288. Governmental funds account for \$1,799,143 with the remainder of \$65,145 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the furniture and equipment category, which increased from \$23,453 in 2009 to \$112,125 in 2010. This increase was a result of the District purchasing a bus and several computers.

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2009-2010</u>
Land	\$227,000	\$227,000	\$ -	\$ -	\$227,000	\$227,000	0.00%
Buildings and improvements	359,218	305,442	-	-	359,218	305,442	17.61%
Improvements, other than buildings	87,229	92,738	-	-	87,229	92,738	-5.94%
Furniture and equipment	<u>111,987</u>	<u>23,229</u>	<u>138</u>	<u>224</u>	<u>112,125</u>	<u>23,453</u>	378.08%
Totals	<u>\$785,434</u>	<u>\$648,409</u>	<u>\$ 138</u>	<u>\$ 224</u>	<u>\$785,572</u>	<u>\$648,633</u>	21.11%

Long-Term Debt

At June 30, 2010, the District had \$34,500 in total long-term debt outstanding. This represents an increase of approximately 102% over the prior year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

The District continues to carry a general obligation bond rating of Aa3 assigned by national rating agencies to the District's debt. The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$2.45 million.

Figure A-7

	Outstanding Long-term Obligations		
	Total		Total
	District		Change
	<u>2010</u>	<u>2009</u>	<u>2009-2010</u>
Termination benefits	\$34,500	\$17,100	101.75%

Economic Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The passing of the SILO Tax on March 2, 2009 was a positive fiscal highlight for FY05 and subsequent years for the Morning Sun Community School District, bringing in revenue for the Capital Project Fund of approximately \$135,000 each year. Because the election was held after May 30, 2009, funds can be used according to PPEL guidelines.
- The District has experienced stable enrollment for the past several years and expects this to continue.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kim Booth, District Secretary/Business Manager, Morning Sun Community School District, 311 Division Street, Morning Sun, Iowa 52640.

Basic Financial Statements

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2010

Exhibit A

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 391,326	\$ -	\$ 391,326
Receivables			
Property tax			
Delinquent	8,041	-	8,041
Succeeding year	743,650	-	743,650
Accounts receivable	25	500	525
Income surtax	55,244	-	55,244
Accrued interest - ISCAP	17	-	17
Net OPEB asset	2,000	-	2,000
Due from other governments	126,231	-	126,231
Inventories	-	901	901
Non-depreciable capital assets	227,000	-	227,000
Capital assets, net of accumulated depreciation	558,434	138	558,572
Total assets	<u>2,111,968</u>	<u>1,539</u>	<u>2,113,507</u>
Liabilities			
Accounts payable	9,499	-	9,499
Negative cash	-	41,121	41,121
Salaries and benefits payable	-	395	395
Due to other governments	9,063	-	9,063
Deferred revenue			
Succeeding year property tax	743,454	-	743,454
Long-term liabilities			
Portion due within one year			
Early retirement payable	34,500	-	34,500
Total liabilities	<u>796,516</u>	<u>41,516</u>	<u>838,032</u>
Net Assets			
Invested in capital assets	785,434	138	785,572
Restricted for			
Management levy	201,831	-	201,831
Physical plant and equipment levy	23,509	-	23,509
Capital projects	288,494	-	288,494
Unrestricted	16,184	(40,115)	(23,931)
Total net assets	<u>\$1,315,452</u>	<u>\$ (39,977)</u>	<u>\$ 1,275,475</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2010

Exhibit B

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest		Governmental Activities	Business Type Activities	Total
				Capital Grants, Contributions and Restricted Interest			
Governmental activities							
Instruction							
Regular instruction	\$ 1,487,549	\$ 229,970	\$ 357,921	\$ -	\$ (899,658)	\$ -	\$ (899,658)
Special instruction	293,691	-	27,125	-	(266,566)	-	(266,566)
Other instruction	38,699	-	-	-	(38,699)	-	(38,699)
	<u>1,819,939</u>	<u>229,970</u>	<u>385,046</u>	<u>-</u>	<u>(1,204,923)</u>	<u>-</u>	<u>(1,204,923)</u>
Support services							
Student	105,997	-	-	-	(105,997)	-	(105,997)
Instructional staff	32,188	-	852	-	(31,336)	-	(31,336)
Administration	225,848	-	-	-	(225,848)	-	(225,848)
Operation and maintenance of plant	156,920	-	19,117	-	(137,803)	-	(137,803)
Transportation	46,832	-	-	-	(46,832)	-	(46,832)
	<u>567,785</u>	<u>-</u>	<u>19,969</u>	<u>-</u>	<u>(547,816)</u>	<u>-</u>	<u>(547,816)</u>
	<u>1,066</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,066)</u>	<u>-</u>	<u>(1,066)</u>
Non-instructional programs							
Other expenses							
Facilities acquisition	43,938	-	-	-	(43,938)	-	(43,938)
AEA flowthrough	87,559	-	87,559	-	-	-	-
Depreciation (unallocated) *	18,885	-	-	-	(18,885)	-	(18,885)
	<u>150,382</u>	<u>-</u>	<u>87,559</u>	<u>-</u>	<u>(62,823)</u>	<u>-</u>	<u>(62,823)</u>
Total governmental activities	<u>2,539,172</u>	<u>229,970</u>	<u>492,574</u>	<u>-</u>	<u>(1,816,628)</u>	<u>-</u>	<u>(1,816,628)</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2010

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Operating Grants, Contributions and Restricted Interest		Capital Grants, Contributions and Restricted Interest			
	Expenses	Charges for Services		Activities	Activities	Total
<u>Functions/Programs (continued)</u>						
Business type activities						
Non-instructional programs						
Food service operations	\$ 59,029	\$ 19,201	\$ -	\$ -	\$ (39,828)	\$ (39,828)
Preschool/daycare program	102,227	39,379	29,400	-	(33,448)	(33,448)
Total business type activities	161,256	58,580	29,400	-	(73,276)	(73,276)
Total	\$ 2,700,428	\$ 288,550	\$ 521,974	(1,816,628)	(73,276)	(1,889,904)
<u>General Revenues</u>						
Property tax levied for						
General purposes				714,690	-	714,690
Capital outlay				16,158	-	16,158
Statewide sales, services and use tax				131,012	-	131,012
Unrestricted state grants				746,516	-	746,516
Contributions and donations				2,584	-	2,584
Unrestricted investment earnings				10,118	392	10,510
Other				11,714	-	11,714
Special item - gain on disposal of capital assets				11,337	-	11,337
Transfers				(53,066)	53,066	-
Total general revenues, special item and transfers				1,591,063	53,458	1,644,521
Change in net assets				(225,565)	(19,818)	(245,383)
Net assets, beginning of year				1,541,017	(20,159)	1,520,858
Net assets, end of year				\$ 1,315,452	\$ (39,977)	\$ 1,275,475

* This amount excludes the depreciation included in the direct expenses of the various programs.
See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2010

Exhibit C

	<u>General</u>	<u>Capital Projects</u>	<u>Special Revenue Management Levy</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total</u>
Assets					
Cash and pooled investments					
Other	\$ -	\$131,988	\$ 236,025	\$23,313	\$ 391,326
Receivables					
Property tax					
Delinquent	7,735	-	306	-	8,041
Succeeding year	743,454	-	-	196	743,650
Accounts receivable	25	-	-	-	25
Accrued interest - ISCAP	17	-	-	-	17
Income surtax	55,244	-	-	-	55,244
Due from other governments	42,841	83,390	-	-	126,231
Due from other funds	-	73,890	-	-	73,890
Total assets	<u>\$849,316</u>	<u>\$289,268</u>	<u>\$ 236,331</u>	<u>\$23,509</u>	<u>\$1,398,424</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 8,725	\$ 774	\$ -	\$ -	\$ 9,499
Due to other funds	73,890	-	-	-	73,890
Due to other governments	9,063	-	-	-	9,063
Deferred revenue					
Succeeding year property tax	743,454	-	-	-	743,454
Income surtax	55,244	-	-	-	55,244
Other	10,000	-	-	-	10,000
Total liabilities	<u>900,376</u>	<u>774</u>	<u>-</u>	<u>-</u>	<u>901,150</u>
Fund balances					
Unreserved governmental funds	(51,060)	288,494	-	-	237,434
Unreserved special revenue funds	-	-	236,331	23,509	259,840
Total fund balances	<u>(51,060)</u>	<u>288,494</u>	<u>236,331</u>	<u>23,509</u>	<u>497,274</u>
Total liabilities and fund balances	<u>\$849,316</u>	<u>\$289,268</u>	<u>\$ 236,331</u>	<u>\$23,509</u>	<u>\$1,398,424</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2010

Exhibit D

Total fund balances of governmental funds	\$ 497,274
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	785,434
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	67,244
Long-term liabilities, specifically termination benefits payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(34,500)</u>
Net assets of governmental activities	<u><u>\$1,315,452</u></u>

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Special Revenue Management Levy</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total</u>
Revenues					
Local sources					
Local tax	\$ 686,285	\$131,012	\$ 24,983	\$16,159	\$ 858,439
Tuition	229,970	-	-	-	229,970
Other	24,356	-	-	59	24,415
State sources	974,511	-	-	-	974,511
Federal sources	285,273	-	-	-	285,273
Total revenues	<u>2,200,395</u>	<u>131,012</u>	<u>24,983</u>	<u>16,218</u>	<u>2,372,608</u>
Expenditures					
Current					
Instruction					
Regular	1,477,928	-	11,896	-	1,489,824
Special	253,443	-	54,000	-	307,443
Other	38,730	-	-	-	38,730
	<u>1,770,101</u>	<u>-</u>	<u>65,896</u>	<u>-</u>	<u>1,835,997</u>
Support services					
Student	106,115	-	-	-	106,115
Instructional staff	32,218	-	-	-	32,218
Administration	226,088	-	-	-	226,088
Operation & maintenance of plant	134,891	-	22,126	-	157,017
Transportation	36,472	-	-	-	36,472
	<u>535,784</u>	<u>-</u>	<u>22,126</u>	<u>-</u>	<u>557,910</u>
Other expenditures					
Facilities acquisition	-	179,331	-	-	179,331
AEA flowthrough	87,559	-	-	-	87,559
	<u>87,559</u>	<u>179,331</u>	<u>-</u>	<u>-</u>	<u>266,890</u>
Total expenditures	<u>2,393,444</u>	<u>179,331</u>	<u>88,022</u>	<u>-</u>	<u>2,660,797</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Special Revenue Management Levy</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$(193,049)</u>	<u>\$ (48,319)</u>	<u>\$ (63,039)</u>	<u>\$16,218</u>	<u>\$(288,189)</u>
Other financing sources (uses)					
Disposal of real or personal property	11,337	-	-	-	11,337
Interfund operating transfers out	<u>(53,066)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(53,066)</u>
Total other financing uses	<u>(41,729)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(41,729)</u>
Net change in fund balance	(234,778)	(48,319)	(63,039)	16,218	(329,918)
Fund balance, beginning of year	<u>183,718</u>	<u>336,813</u>	<u>299,370</u>	<u>7,291</u>	<u>827,192</u>
Fund balance, end of year	<u><u>\$ (51,060)</u></u>	<u><u>\$288,494</u></u>	<u><u>\$ 236,331</u></u>	<u><u>\$23,509</u></u>	<u><u>\$ 497,274</u></u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2010

Exhibit F

Net change in fund balances - total governmental funds \$(329,918)

**Amounts reported for governmental activities in the Statement of Activities
are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense are as follows:

Expenditures for capital assets	\$180,499	
Depreciation expense	<u>(43,474)</u>	137,025

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (17,272)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Early retirement termination benefits	(17,400)	
Net postemployment benefits	<u>2,000</u>	<u>(15,400)</u>

Change in net assets of governmental activities \$(225,565)

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2010

Exhibit G

	Business Type
	<u>Activities</u>
	Nonmajor
	<u>Enterprise</u>
Assets	
Accounts receivable	\$ 500
Inventories	901
Capital assets, net of accumulated depreciation	<u>138</u>
Total assets	<u>1,539</u>
Liabilities	
Negative cash	41,121
Salaries and benefits payable	<u>395</u>
Total liabilities	<u>41,516</u>
Net Assets	
Invested in capital assets	138
Unrestricted	<u>(40,115)</u>
Total net assets	<u><u>\$(39,977)</u></u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2010

Exhibit H

	Business Type <u>Activities</u> Nonmajor <u>Enterprise</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 58,580</u>
Operating expenses	
Instruction	
Regular	
Salaries	86,787
Benefits	<u>12,202</u>
	<u>98,989</u>
Non-instructional programs	
Food service operations	
Salaries	25,015
Benefits	3,577
Purchased services	441
Supplies	29,910
Depreciation	<u>86</u>
	<u>59,029</u>
Other enterprise operations	
Benefits	60
Supplies	<u>3,178</u>
	<u>3,238</u>
Total non-instructional programs	<u>62,267</u>
Total operating expenses	<u>161,256</u>
Operating loss	<u>(102,676)</u>
Non-operating revenues	
Interest income	392
State sources	631
Federal sources	<u>28,769</u>
Total non-operating revenues	<u>29,792</u>
Net loss before transfers	(72,884)
Transfers in	<u>53,066</u>
Net loss	(19,818)
Net assets, beginning of year	<u>(20,159)</u>
Net assets, end of year	<u><u>\$ (39,977)</u></u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010

Exhibit I

	Business Type <u>Activities</u> Nonmajor <u>Enterprise</u>
Cash flows from operating activities	
Cash received from sale of services	\$ 58,268
Cash payments to employees for services	(117,430)
Cash payments to suppliers for goods and services	<u>(20,643)</u>
Net cash used in operating activities	<u>(79,805)</u>
Cash flows from non-capital financing activities	
Operating transfers from other fund	53,066
State grants received	631
Federal grants received	<u>25,005</u>
Net cash provided by non-capital financing activities	<u>78,702</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities	
Interest on investments	<u>392</u>
Net decrease in cash and cash equivalents	(711)
Cash and cash equivalents, beginning of year	711
Cash and cash equivalents, end of year	<u><u>\$ -</u></u>

**Reconciliation of operating loss to net cash
used in operating activities**

Operating loss	\$(102,676)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	86
Commodities used	3,764
Decrease in accounts receivable	(312)
Decrease in inventory	2,567
Increase in salaries and benefits payable	209
(Increase) in negative cash	<u>16,557</u>
Net cash used in operating activities	<u><u>\$ (79,805)</u></u>

Non-cash investing, capital and related financing activities

During the year ended June 30, 2010, the District received \$3,764 of federal commodities.

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies

The Morning Sun Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Students in grades 7-12 attend other local school districts under whole-grade sharing agreements. The geographic area served includes the City of Morning Sun, Iowa, and the agricultural territory in Des Moines and Louisa Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Morning Sun Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Morning Sun Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets consists of capital assets, net of accumulated depreciation.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Special Revenue, Management Levy Fund is used to account for the resources of the management levy, which are used for district insurance, other than employee-related insurance.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports no major proprietary funds. However, it reports the following nonmajor enterprise funds: School Nutrition Fund and Daycare/Preschool Fund. These funds are used to account for the student nutrition program and the daycare/preschool programs operated by the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, termination benefits are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All

revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2009.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,500
Buildings	\$ 1,500
Improvements other than buildings	\$ 1,500
Intangibles	\$50,000
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$ 1,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements to buildings	20 years
Intangibles	5-10 years
Furniture and equipment	5-12 years

Early Retirement Termination Benefits - District employees meeting certain requirements are eligible for early retirement termination benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2010. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund. At June 30, 2010 three individuals had requested early retirement.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected

within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent federal grant proceeds as well as property tax and income surtax receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax that will not be recognized as revenue until the year for which it is levied.

Fund Balance - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Net Assets - Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consist of net assets with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports \$225,340 of restricted net assets which is restricted by enabling legislation.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2010, the District had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio which are valued at an amortized cost of \$274,448 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Non-major		
Enterprise, Daycare & Preschool	General	\$ 53,066

The transfers between the Daycare/Preschool Fund and General Fund were to move state foundation aid received for preschool students from the General Fund to the Daycare/Preschool Fund where expenditures for these students were recorded.

Note 4. Due To and Due From Other Funds

Details of the interfund receivables and payables at June 30, 2010 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects	General	\$ 73,890

The General Fund had a negative cash balance at June 30, 2010; however, since the Capital Projects Fund shares a bank account with the General Fund, the negative bank balance is shown as a Due To and Due From on the balance sheet.

Note 5. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month

immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2009-10A warrants was 2.5%. The interest rate on the Series 2009-10B warrants is a variable rate, calculated daily based upon the Bankers Trust Co. NA prime rate plus 50 basis points with a minimum interest rate of 4.5%. The District did not have any ISCAP advance activity during the year ended June 30, 2010.

During the year ended June 30, 2010, the District paid \$7,035 of interest on the ISCAP warrants.

Note 6. Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 227,000	\$ -	\$ -	\$ 227,000
Capital assets being depreciated:				
Buildings and improvements	810,661	62,576	-	873,237
Improvements other than buildings	211,557	-	-	211,557
Furniture and equipment	<u>369,426</u>	<u>117,923</u>	<u>-</u>	<u>487,349</u>
Total capital assets being depreciated	<u>1,391,644</u>	<u>180,499</u>	<u>-</u>	<u>1,572,143</u>
Less accumulated depreciation for:				
Buildings and improvements	505,219	8,800	-	514,019
Improvements other than buildings	118,819	5,509	-	124,328
Furniture and equipment	<u>346,197</u>	<u>29,165</u>	<u>-</u>	<u>375,362</u>
Total accumulated depreciation	<u>970,235</u>	<u>43,474</u>	<u>-</u>	<u>1,013,709</u>
Total capital assets being depreciated, net	<u>421,409</u>	<u>137,025</u>	<u>-</u>	<u>558,434</u>
Governmental activities capital assets, net	<u>\$ 648,409</u>	<u>\$ 137,025</u>	<u>\$ -</u>	<u>\$ 785,434</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 65,145	\$ -	\$ -	\$ 65,145
Less accumulated depreciation	<u>64,921</u>	<u>86</u>	<u>-</u>	<u>65,007</u>
Business type activities capital assets, net	<u>\$ 224</u>	<u>\$ (86)</u>	<u>\$ -</u>	<u>\$ 138</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 13,120
Transportation	10,403
Non-instructional programs	<u>1,066</u>
	24,589
Unallocated depreciation	<u>18,885</u>
Total governmental activities depreciation expense	<u>\$ 43,474</u>

Business type activities

Food services	<u>\$ 86</u>
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Note 7. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
Governmental activities					
Termination benefits	\$ 17,100	\$ 71,400	\$ 54,000	\$ 34,500	\$ 34,500

Note 8. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Plan members were required to contribute 4.30%, 4.10 % and 3.90% of their annual covered salary and the District was required to contribute 6.65%, 6.35% and 6.05% of annual covered payroll for the years ended June 30, 2010, 2009 and 2008 respectively. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$87,486, \$43,149 and \$83,173, respectively, equal to the required contributions for each year.

Note 9. Other Postemployment Benefits (OPEB)

The District implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 19 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of the plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 5,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost	5,000
Contributions made	<u>(7,000)</u>
Increase in net OPEB asset	(2,000)
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB asset end of year	<u>\$ (2,000)</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB asset was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$7,000 to the medical plan. Plan members eligible for benefits contributed nothing of the premium costs for the OPEB obligation.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/10	\$ 5,000	140.0%	\$ (2,000)

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$82,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$82,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1.327 million and the ratio of UAAL to covered payroll was 6.2%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 6%. The medical trend rate is reduced 0.5% each year until reaching the 6% ultimate trend rate.

Mortality rates are from the RP-2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$472.00 for single and \$1,128.00 for individual and spouse. Upon retirement, the retired participant is assumed to pay 100% of the required premium. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 10. Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 11. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$87,559 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 12. Contingencies

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2010, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Note 13. Deficit Fund Balances

The District's General Fund had an unreserved, undesignated fund deficit of \$51,060, the Enterprise Fund, School Nutrition Fund and Daycare & Preschool Fund had unrestricted net assets deficits of \$5,999 and \$34,116, respectively and the total proprietary funds had an unrestricted net assets deficit of \$40,115 at June 30, 2010.

Note 14. New Governmental Accounting Standards Board (GASB) Statements

The District implemented the following statements during the year ended June 30, 2010:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports. The effect of the adoption of this Statement to the District was to record an asset of \$2,000 for the net other postemployment benefit prepaid. The actuarial accrued liability is estimated by an actuary to be \$82,000.
- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement provides guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents and trademarks. This standard provides that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). Relevant authoritative guidance for capital assets should be applied to these intangible assets. This Statement had no effect to the District since the District had no intangible assets to be reported as of June 30, 2010.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement will improve how state and local governments report information about derivative instruments in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in the Statement also addresses hedge accounting requirements. This Statement had no effect to the District. Furthermore, Iowa Code Chapter 128.10 does not authorize districts to invest in derivative instruments.

- GASB Statement No. 58 *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This Statement provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs. The adoption of this statement had no effect to the District.

As of June 30, 2010, the GASB had issued several Statements not yet implemented by the District. The Statements which might impact the District are as follows:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Issued March 2009, will be effective for the District beginning with its year ending June 30, 2011. This Statement is intended to improve the usefulness of information provided to financial report users about fund balances by providing clearer, more structured fund balance clarifications, and by clarifying the definitions of existing governmental fund types. Fund balance information is among the most widely and frequently used information in state and local government financial reports. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standard establishes a hierarchy of fund balance classification based primarily on the extent to which government is bound to observe spending constraints.
- GASB Statement No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, an amendment of GASB Statement No. 43 and No. 45, issued January 2010, will be effective for the District beginning with its year ending June 30, 2012. This Statement addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.
- GASB Statement No. 59, *Financial Instruments Omnibus*, issued June 2010, will be effective for the District beginning with its year ending June 30, 2011. This Statement is intended to update and improve existing standards regarding financial reporting of certain financial instruments and external investments pools. Specifically, this Statement provides financial reporting guidance by emphasizing the applicability of SEC requirements to certain external investments pool, addressing the applicability of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, and applying the reporting provisions for interest-earning investment

contracts of GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*.

The District's management has not yet determined the effect these Statements will have on the District's financial statements.

Required Supplementary Information

MORNING SUN COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual
 All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 For the Year Ended June 30, 2010

	Governmental		Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds Actual	Funds Actual	Funds Actual		Original	Final	
Revenues							
Local sources	\$1,112,824	\$ 58,972	\$1,171,796	\$ 1,736,866	\$ 1,736,866	\$ 1,736,866	\$ (565,070)
State sources	974,511	631	975,142	1,266,769	1,266,769	1,266,769	(291,627)
Federal sources	285,273	28,769	314,042	215,000	215,000	215,000	99,042
Total revenues	<u>2,372,608</u>	<u>88,372</u>	<u>2,460,980</u>		<u>3,218,635</u>	<u>3,218,635</u>	<u>(757,655)</u>
Expenditures/expenses							
Instruction	1,835,997	98,989	1,934,986	2,695,771	2,695,771	2,695,771	760,785
Support services	557,910	-	557,910	980,129	980,129	980,129	422,219
Non-instructional programs	-	62,267	62,267	249,218	249,218	249,218	186,951
Other expenditures	266,890	-	266,890	2,188,564	2,188,564	2,188,564	1,921,674
Total expenditures/expenses	<u>2,660,797</u>	<u>161,256</u>	<u>2,822,053</u>		<u>6,113,682</u>	<u>6,113,682</u>	<u>3,291,629</u>
(Deficiency) of revenues (under) expenditures/expenses	(288,189)	(72,884)	(361,073)	(2,895,047)	(2,895,047)	(2,895,047)	2,533,974
Net other financing sources (uses), net	<u>(41,729)</u>	<u>53,066</u>	<u>11,337</u>		<u>1,577,300</u>	<u>1,577,300</u>	<u>(1,565,963)</u>
(Deficiency) of revenues and other financing sources							
(under) expenditures/expenses and other financing (uses)	(329,918)	(19,818)	(349,736)	(1,317,747)	(1,317,747)	(1,317,747)	968,011
Balance, beginning of year	827,192	(20,159)	807,033	977,860	977,860	977,860	(170,827)
Balance, end of year	<u>\$ 497,274</u>	<u>\$ (39,977)</u>	<u>\$ 457,297</u>		<u>\$ (339,887)</u>	<u>\$ (339,887)</u>	<u>\$ 797,184</u>

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures/expenses known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not adopt any budget amendments.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Funding Progress for the
Retiree Health Plan
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$82,000	\$82,000	\$ -	\$1,326,792	6.2%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Other Supplementary Information

MORNING SUN COMMUNITY SCHOOL DISTRICT
Balance Sheet
Nonmajor Special Revenue Fund
June 30, 2010

Schedule 1

	Physical Plant and Equipment <u>Levy</u>
Assets	
Cash and pooled investments	\$ 23,313
Receivables	
Property tax	
Succeeding year	<u>196</u>
Total assets	<u><u>\$ 23,509</u></u>
 Liabilities and Fund Balances	
Liabilities	\$ -
 Fund balances	
Unreserved fund balance	<u>23,509</u>
Total liabilities and fund balances	<u><u>\$ 23,509</u></u>

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Fund
For the Year Ended June 30, 2010

Schedule 2

	Physical Plant and Equipment Levy
Revenues	
Local sources	
Local taxes	\$ 16,159
Other	59
Total revenues	<u>16,218</u>
Expenditures	<u>-</u>
Net change in fund balances	16,218
Fund balances, beginning of year	<u>7,291</u>
Fund balances, end of year	<u><u>\$ 23,509</u></u>

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2010

Schedule 3

	<u>School Nutrition</u>	<u>Daycare & Preschool</u>	<u>Total</u>
Assets			
Accounts receivable	\$ 50	\$ 450	\$ 500
Inventories	901	-	901
Capital assets, net of accumulated depreciation	<u>138</u>	<u>-</u>	<u>138</u>
Total assets	<u>1,089</u>	<u>450</u>	<u>1,539</u>
Liabilities			
Negative cash	6,555	34,566	41,121
Salaries and benefits payable	<u>395</u>	<u>-</u>	<u>395</u>
Total liabilities	<u>6,950</u>	<u>34,566</u>	<u>41,516</u>
Net Assets			
Invested in capital assets	138	-	138
Unrestricted	<u>(5,999)</u>	<u>(34,116)</u>	<u>(40,115)</u>
Total net assets	<u><u>\$ (5,861)</u></u>	<u><u>\$ (34,116)</u></u>	<u><u>\$ (39,977)</u></u>

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2010

Schedule 4

	<u>School</u>	<u>Daycare &</u>	<u>Total</u>
	<u>Nutrition</u>	<u>Preschool</u>	
Operating revenue			
Local sources			
Charges for service	\$ 19,201	\$ 39,379	\$ 58,580
Operating expenses			
Instruction			
Regular			
Salaries	-	86,787	86,787
Benefits	-	12,202	12,202
	<u>-</u>	<u>98,989</u>	<u>98,989</u>
Non-instructional programs			
Food service operations			
Salaries	25,015	-	25,015
Benefits	3,577	-	3,577
Purchased services	441	-	441
Supplies	29,910	-	29,910
Depreciation	86	-	86
	<u>59,029</u>	<u>-</u>	<u>59,029</u>
Other enterprise operations			
Benefits	-	60	60
Supplies	-	3,178	3,178
	<u>-</u>	<u>3,238</u>	<u>3,238</u>
Total non-instructional programs	<u>59,029</u>	<u>3,238</u>	<u>62,267</u>
Total operating expenses	<u>59,029</u>	<u>102,227</u>	<u>161,256</u>
Operating loss	<u>(39,828)</u>	<u>(62,848)</u>	<u>(102,676)</u>
Non-operating revenue			
Interest income	162	230	392
State sources	631	-	631
Federal sources	28,769	-	28,769
Total non-operating revenue	<u>29,562</u>	<u>230</u>	<u>29,792</u>
Net loss before transfers	<u>(10,266)</u>	<u>(62,618)</u>	<u>(72,884)</u>
Transfers in	<u>-</u>	<u>53,066</u>	<u>53,066</u>
Net loss	<u>(10,266)</u>	<u>(9,552)</u>	<u>(19,818)</u>
Net assets, beginning of year	<u>4,405</u>	<u>(24,564)</u>	<u>(20,159)</u>
Net assets, end of year	<u>\$ (5,861)</u>	<u>\$ (34,116)</u>	<u>\$ (39,977)</u>

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2010

Schedule 5

	<u>School Nutrition</u>	<u>Daycare & Preschool</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from sale of services	\$ 19,339	\$ 38,929	\$ 58,268
Cash payments to employees for services	(28,383)	(89,047)	(117,430)
Cash payments to suppliers for goods and services	(17,465)	(3,178)	(20,643)
Net cash used in operating activities	<u>(26,509)</u>	<u>(53,296)</u>	<u>(79,805)</u>
Cash flows from non-capital financing activities			
Operating transfers from other fund	-	53,066	53,066
State grants received	631	-	631
Federal grants received	25,005	-	25,005
Net cash provided by non-capital financing activities	<u>25,636</u>	<u>53,066</u>	<u>78,702</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities			
Interest on investments	162	230	392
Net decrease in cash and cash equivalents	(711)	-	(711)
Cash and cash equivalents, beginning of year	711	-	711
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Reconciliation of operating loss to net cash
used in operating activities**

Operating loss	\$ (39,828)	\$ (62,848)	\$ (102,676)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation	86	-	86
Commodities used	3,764	-	3,764
(Increase) decrease in accounts receivable	138	(450)	(312)
Decrease in inventory	2,567	-	2,567
Increase in salaries and benefits payable	209	-	209
Increase in negative cash	6,555	10,002	16,557
Net cash used in operating activities	<u>\$ (26,509)</u>	<u>\$ (53,296)</u>	<u>\$ (79,805)</u>

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2010, the District received \$3,764 of federal commodities.

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Seven Years

	Modified Accrual Basis						
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues							
Local sources							
Local tax	\$ 858,439	\$ 791,866	\$ 769,237	\$ 767,387	\$ 733,483	\$ 707,193	\$ 662,632
Tuition	229,970	489,147	565,525	374,903	468,233	588,995	529,136
Other	24,415	264,420	75,294	112,252	50,175	141,474	105,148
State sources	974,511	1,256,395	1,172,733	1,150,726	1,088,780	999,550	1,045,986
Federal sources	285,273	80,051	66,230	93,835	76,459	76,662	74,167
Total revenues	<u>\$2,372,608</u>	<u>\$2,881,879</u>	<u>\$2,649,019</u>	<u>\$2,499,103</u>	<u>\$2,417,130</u>	<u>\$2,513,874</u>	<u>\$2,417,069</u>
Expenditures							
Current							
Instruction							
Regular	\$1,489,824	\$1,556,146	\$1,513,488	\$1,410,647	\$1,414,682	\$1,665,278	\$1,596,738
Special	307,443	305,761	330,433	264,987	268,192	48,168	49,226
Other	38,730	31,528	37,023	14,139	21,549	-	-
Support services							
Student	106,115	106,958	80,443	79,001	81,557	89,124	87,282
Instructional staff	32,218	29,274	28,312	27,795	36,302	25,013	21,409
Administration	226,088	430,554	258,045	234,498	193,872	309,111	212,033
Operation and maintenance of plant	157,017	191,864	191,355	191,342	154,092	154,935	120,761
Transportation	36,472	36,427	37,885	32,157	37,055	34,094	28,044
Other expenditures							
Facilities acquisition	179,331	50,107	145,998	130,150	52,121	52,949	84,958
AEA flowthrough	87,559	82,242	74,630	72,062	66,969	64,561	66,021
Total expenditures	<u>\$2,660,797</u>	<u>\$2,820,861</u>	<u>\$2,697,612</u>	<u>\$2,456,778</u>	<u>\$2,326,391</u>	<u>\$2,443,233</u>	<u>\$2,266,472</u>

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

119 West Mississippi Drive, Suite 3

Muscataine, Iowa 52761

563-264-1385

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Education
Morning Sun Community School District

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Morning Sun Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated January 12, 2011. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Morning Sun Community School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of Morning Sun Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Morning Sun Community School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal

control described in Part I of the accompanying Schedule of Findings as items A and B to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morning Sun Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Morning Sun Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the District's responses, I did not audit Morning Sun Community School District's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Morning Sun Community School District and other parties to whom Morning Sun Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Morning Sun Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Kay L. Chapman, CPA PC". The signature is written in a cursive, flowing style.

Kay L. Chapman, CPA PC
January 12, 2011

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2010

Part I. Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCIES

- A. Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities. I noted that the same individual performs the following duties: recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the District to obtain the maximum internal control possible under the circumstances.

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

- B. Financial Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time, District personnel do not have the skills necessary to prepare the District's financial statements and related note disclosures in compliance with generally accepted accounting principles (GAAP). This is not an unusual situation for small governmental entities.

Recommendation - The business manager should consider obtaining additional GAAP training through reading relevant accounting literature and/or attending professional education courses. Since GAAP reporting and disclosures change constantly, the business manager should consider taking training annually to stay up-to-date on GAAP reporting and disclosure requirements. The District should also obtain current governmental accounting, reporting and disclosure reference materials and update them as new pronouncements become effective.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2010

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We certainly understand the need for continuing education classes for all of our staff, including the business manager. However, we have a limited budget and must continually prioritize needs. We will investigate alternatives, but believe that it would not be an efficient use of District funds to get and maintain the necessary training for the business manager to comply with this recommendation. Nor do we consider hiring additional staff possessing these skills to be a feasible option.

Conclusion - Response accepted.

Part II. Other Findings Related to Required Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2010 did not exceed the amounts budgeted.
2. Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions – No business transactions between the District and District officials were noted.
5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Supplementary Weighting - No variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2010

10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely.

11. Deficit Balances - The District's General Fund had an unreserved fund deficit of \$51,060 at June 30, 2010 and the Enterprise Funds - School Nutrition Fund and Daycare & Preschool Fund had unrestricted net assets deficits of \$5,999 and \$34,116, respectively and total Enterprise Funds had an unrestricted net assets deficit of \$39,977 at June 30, 2010.

Recommendation - The District should review the operations of these funds and investigate alternatives to eliminate these deficits.

Response - The District is continuing to investigate alternatives to eliminate these deficits and we will take appropriate action as we deem necessary.

Conclusion - Response accepted.

12. Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

13. Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning balance	\$ 336,813
Statewide sales, services and use tax	131,012
Expenditures/transfers out	
School infrastructure	
Land	
Building improvements	(62,576)
Equipment	<u>(116,755)</u>
Ending balance	<u>\$ 288,494</u>

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levy:

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2010

	Per \$1,000 of Taxable <u>Valuation</u>	Property Tax <u>Dollars</u>
Physical plant and equipment levy	\$ 2.67337	\$ 131,012

MORNING SUN COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2010

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant